AIR CANADA REPORTS FIRST QUARTER RESULTS

In accordance with Canadian GAAP Accounting Guideline No. 15, Air Canada consolidates the financial statements of Jazz and certain leasing entities and fuel facility corporations into its financial statements. Air Canada does not have any ownership interest in Jazz. The financial statements of Air Canada excluding Jazz are termed Air Canada Services. With a view to ensure greater clarity, this press release highlights the performance of Air Canada Services and Jazz separately.

Air Canada Services

2007 FIRST QUARTER OVERVIEW

- Passenger revenues up $135 million or 7 per cent over the first quarter of 2006, driven by a 5 per cent growth in traffic on a capacity growth of 3 per cent and a 2 per cent yield improvement.
- Passenger load factor at 80.2 per cent, a record load factor for the first quarter.
- EBITDAR of $123 million in the quarter compared to EBITDAR (excluding special charges) of $102 million in the 2006 first quarter, an improvement of $21 million.
- Operating loss of $78 million compared to an operating loss (excluding special charges) of $96 million in the first quarter of 2006, an improvement of $18 million.
- Net loss of $34 million in the first quarter of 2007 compared to a net loss of $126 million in the 2006 quarter.

MONTRÉAL, May 11, 2007 – Air Canada reported today its first quarter results with the Air Canada Services segment recording an operating loss of $78 million, an improvement of $18 million from the operating loss (excluding first quarter 2006 special charges) of $96 million recorded in the first quarter of 2006. Air Canada Services EBITDAR amounted to $123 million, an improvement of $21 million from the same period in 2006, after removing special charges of $28 million in the first quarter of 2006.

Passenger revenues increased $135 million or 7 per cent over the first quarter of 2006 due to traffic growth of 5 per cent reflecting stronger market demand and a yield improvement of 2 per cent. Passenger revenue improvements were reported in all markets. RASM rose 4 per cent compared to the first quarter of 2006 due equally to a 1.5 percentage point improvement in passenger load factor and the growth in yield.

Unit cost, as measured by operating expense per ASM, increased 1 per cent from the first quarter of 2006. Excluding fuel expense and the special charge for labour restructuring of $28 million in 2006, unit cost increased 2 per cent over the first quarter of 2006 and included the impact of arbitrated wage increases, weather-related challenges during the first quarter of 2007, increased aircraft maintenance expenses and other factors. While the one-time impact of the weather will not carry forward, Air Canada expects the increases in aircraft maintenance, materials and supplies expense to continue into the second quarter as it expects to record additional costs associated with satisfying customary conditions on aircraft leases scheduled to be returned to lessors.

The Air Canada Services segment recorded a net loss for the quarter of $34 million compared to a net loss of $126 million in the first quarter of 2006. The net loss in the 2007 quarter included gains of $34 million relating to fair value adjustments on certain derivative financial instruments and gains on the revaluation of foreign currency monetary items of $33 million.

"I am pleased to report a solid first quarter with encouraging year-over-year performance during what is traditionally the industry's weakest period for travel demand," said Montie Brewer, Air Canada's President and Chief Executive Officer. "Performance in the domestic market, in particular, excelled. In the quarter, domestic load factor increased 3.8 percentage points on 2.2 per cent more capacity while passenger revenue grew 9 per cent and unit revenue (RASM) grew 6 per cent over the previous year's first quarter. Moreover, we are now seeing the tangible benefits of our fleet renewal with markedly reduced Embraer trip costs." In the quarter, the Embraer E190 fleet produced direct operating costs 20 per cent lower than the Airbus A319 fleet on a per trip basis.

"We continued to report record breaking load factors in the quarter, with traffic outpacing capacity growth as we added new aircraft to the fleet. With consumers increasingly choosing Air Canada's innovative fare products, including subscription passes and à la carte pricing features, we have grown our domestic capacity share by five percentage points over the past three years."

In the first quarter, domestic sales made directly with Air Canada, online or through call centres, rose by 11 percentage points to 73 per cent of sales in Canada. Overall distribution costs declined 11 per cent from the previous year's quarter.

"Customer reaction has been very positive as we renew the fleet with new Embraer and Boeing aircraft, while the existing fleet undergoes major refurbishment to provide customers with a streamlined on board product. In March, we took delivery of our first Boeing 777-300 aircraft, now operating on the Toronto-London route, and we plan to have a total of eight in our fleet by the end of 2007. As we continue to take delivery of these fuel efficient aircraft, we are removing older aircraft from the fleet to create one of the youngest and most efficient fleets in the world." The per-seat cash operating cost of the Boeing 777-300 aircraft is expected to be 14 per cent cheaper as compared to the Airbus A340-300.

In April, Air Canada exercised options and purchase rights for an additional 23 Boeing 787 Dreamliners, bringing its order to 37 for this next-generation widebody aircraft, the most of any airline in the Americas. Air Canada expects that the per-seat cost of fuel and maintenance of the Boeing 787 aircraft will be approximately 30 per cent cheaper than the Boeing 767-300 aircraft they will replace. The Boeing 787 aircraft also feature better operational performance in terms of speed and flight range and provide Air Canada with the ability to serve new markets that could not be previously served in an efficient manner. The fleet structure simplification is also focused on reducing the number of aircraft types in order to reduce the costs over time related to maintenance and pilot training. In addition, the Export-Import Bank of the United States provided the carrier with a final commitment for loan guarantees for seven Boeing 777 aircraft which will be delivered in 2007 and a preliminary commitment covering the remaining Boeing 777 aircraft which will be delivered in 2008 and 14 Boeing 787 aircraft which will be delivered in 2010 and 2011.

“While fuel prices remain of concern, we continue to manage our exposure to changes in fuel prices through our fuel hedging strategy.” As of today, Air Canada has hedged 38 per cent of its fuel requirements for the remainder of the year, and 6 per cent of the first semester 2008 requirements. The value of the airline’s portfolio position was favourable by $31 million on April 30th.

“Looking forward, the Canadian domestic market remains robust and we’re successfully managing exposure to a softening U.S. market through our ability to shift capacity as required in order to meet growing demand in our domestic and international networks. Furthermore, booking trends in the coming months remain strong,” said Mr. Brewer.

Jazz

As reported by Jazz on May 9, 2007, for the first quarter of 2007, the Jazz segment recorded operating income of $36 million, an improvement of $1 million from the operating income of $35 million recorded in the first quarter of 2006. EBITDAR increased $5 million over the first quarter of 2006 mainly due to a 13 per cent increase in capacity.

Air Canada Consolidated (including Jazz)

On a consolidated basis, Air Canada reported an operating loss of $42 million in the first quarter of 2007 compared to an operating loss of $88 million in the first quarter of 2006. Net loss for the quarter amounted to $34 million compared to a net loss of $126 million in the first quarter of 2006.

Air Canada’s strong revenue performance showed significant improvement as evidenced by the following:

- Traffic improved by 5 per cent with domestic, U.S. transborder and Atlantic traffic growing at 7, 6 and 5 per cent, respectively.
- Capacity increased 3 per cent and was deployed to match demand with domestic, U.S. transborder and Atlantic capacity growing 2, 8 and 2 per cent, respectively.
- Yield grew at 2 per cent with domestic, Atlantic and Pacific yield growing at 1, 2 and 5 per cent, respectively.
- Strong load factor at 80.2 per cent was unprecedented for the first quarter. Growth spurred at 1.5 percentage points with domestic and Atlantic load factors growing by 3.8 and 2 percentage points, respectively.

First Quarter 2007 Air Canada Services Accomplishments

- Recorded another three consecutive months of record load factors, for year-to-date load factor of 80.2 per cent.
- Took delivery of the first Boeing 777-300, with a second joining the international fleet April 30th.
- Introduced 4 Embraer E190 aircraft, of a total of 45 on order, joining 18 E190 and 15 E175 aircraft already in service in the North American fleet.
- 48.5 per cent of domestic consumers chose a branded fare higher than the everyday low Tango fare available, compared to 42 per cent in the previous year's quarter.
- Continued to expand its line of multi-flight pass products, more than doubling pass sales revenue from the previous year's quarter.
- Introduced the first flat fee subscription Flight Pass for sale in the United States, allowing for unlimited flights within a choice of geographical zones and periods of time.
- Web penetration for domestic Canada sales in the first quarter was 61.4 per cent. Web penetration for combined Canada and U.S. transborder sales was almost 50 per cent – an 11.3 percentage point increase over the previous year's quarter.
- 73 per cent of domestic Canada sales for the first quarter were made directly with Air Canada, either online or through call centres.
- Consolidated all U.S. flights in Toronto under the same roof as its domestic and international operations in Terminal One at Pearson Airport.
- Awarded 2006 "Airline of the Year" by Airfinance Journal.
- Received Air Transport World magazine's Airline Industry Achievement Award for Market Leadership.
- Launched celebrations marking Air Canada's 70th anniversary year of service.

(1) Non-GAAP Measures

EBITDAR is a non-GAAP financial measure commonly used in the airline industry to assess earnings before interest, taxes, depreciation and aircraft rent. EBITDAR is used to view operating results before aircraft rent and depreciation, amortization and obsolescence as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets. EBITDAR is not a recognized measure for financial statement presentation under GAAP and does not have a standardized meaning and is therefore not comparable to similar measures presented by other public companies.

Operating income excluding special charges for labour restructuring is a non-GAAP financial measure. Air Canada Services uses operating income excluding the special charge for labour restructuring to assess the operating performance of its ongoing business without the effects of these special charges. These special charges are excluded from Air Canada Services' results as they could potentially distort the analysis of trends in business performance.

Readers should refer to Air Canada's Quarter 1 2007 Management's Discussion and Analysis (MD&A), which will be filed on SEDAR, for a reconciliation of EBITDAR to operating income (loss) and for a reconciliation of operating income (loss) excluding special charges for labour restructuring to operating income (loss).

For further information on Air Canada's public disclosure file, including Air Canada's Initial Annual Information Form dated March 27, 2007, consult SEDAR at www.sedar.com.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

Certain statements in this news release may contain forward-looking statements. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions. Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to differ materially from those expressed in the forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, energy prices, general industry, market and economic conditions, war, terrorist attacks, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, employee relations, labour negotiations or disputes, pension issues, currency exchange and interest rates, changes in laws, adverse regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout Air Canada's filings with securities regulators in Canada and, in particular, those identified in the Risk Factors section to Air Canada's 2006 Annual Management Discussion & Analysis dated February 14, 2007. The forward-looking statements contained herein represent Air Canada's expectations as of the date they are made and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

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HIGHLIGHTS

Air Canada Services [1]

Financial (Canadian dollars in millions unless stated otherwise)	Quarter 1 2007	Quarter 1 2006	$ Change
Operating revenues	**2,534**	2,394	140
Operating loss	**(78)**	(124)	46
Operating loss, excluding special charges [3]	**(78)**	(96)	18
Non-operating income (expense)	**8**	(40)	48
Loss before non-controlling interest, foreign exchange and recovery of income taxes	**(70)**	(164)	94
Loss for the period	**(34)**	(126)	92
Operating margin %	**(3.1)%**	(5.2)%	2.1 pp
Operating margin %, excluding special charges [3]	**(3.1)%**	(4.0)%	0.9 pp
EBITDAR [4]	**123**	74	49
EBITDAR, excluding special charges [3] [4]	**123**	102	21
EBITDAR margin %	**4.9%**	3.1%	1.8 pp
Cash, cash equivalents and short-term investments	**1,969**	1,622	347
Cash flows from operating activities	**207**	291	(84)

Operating Statistics	Quarter 1 2007	Quarter 1 2006	% Change
Revenue passenger miles (millions) (RPM)	**11,814**	11,240	5
Available seat miles (millions) (ASM)	**14,735**	14,287	3
Passenger load factor	**80.2%**	78.7%	1.5 pp
Passenger revenue yield per RPM (cents)	**18.0**	17.8	2
Passenger revenue per ASM (cents)	**14.5**	14.0	4
Operating revenue per ASM (cents)	**17.2**	16.8	3
Operating expense per ASM (cents)	**17.7**	17.6	1
Operating expense per ASM, excluding fuel expense (cents)	**13.8**	13.6	1
Operating expense per ASM, excluding fuel expense and the special charge for labour restructuring (cents) [3][5]	**13.8**	13.5	2
Average number of full-time equivalent (FTE) employees (thousands)	**23.4**	23.9	(2)
Aircraft in operating fleet at period end [6]	**332**	326	2
Average aircraft utilization (hours per day) [7] [8]	**10.8**	10.1	7
Average aircraft flight length (miles) [8]	**875**	860	2
Fuel price per litre (cents) [9]	**62.9**	63.5	(1)
Fuel litres (millions)	**925**	890	4

Air Canada Combined Consolidated [2]

Financial (Canadian dollars in millions unless stated otherwise)	Quarter 1 2007	Quarter 1 2006	$ Change
Operating revenues	**2,510**	2,376	134
Operating loss	**(42)**	(88)	46
Operating loss, excluding special charges [3]	**(42)**	(60)	18
Loss for the period	**(34)**	(126)	92
Operating margin %	**(1.7)%**	(3.7)%	2.0 pp
Cash, cash equivalents and short-term investments	**2,101**	1,708	393

(1) In accordance with Canadian GAAP ACG-15, Air Canada is required to consolidate the financial statements of Jazz Air LP ("Jazz"), certain leasing entities and fuel facility corporations into its financial statements. Air Canada does not have any ownership interest in Jazz. The financial statements of Air Canada, the mainline airline, are termed "Air Canada Services".

(2) Air Canada's combined consolidated results include the financial position, results of operations and cash flows of the various components and entities (including Jazz) as described in Note 1 to Air Canada's 2006 combined consolidated financial statements. Air Canada has two business segments: Air Canada Services and Jazz.
Refer to section 1 of Air Canada's Quarter 1 2007 Management Discussion and Analysis of Results ("MD&A").

(3) A special charge for labour restructuring of $28 million was recorded in Quarter 1 2006. In Quarter 4 2006, the charge was reduced by $8 million to $20 million due to the favourable impact of attrition and other factors.

(4) EBITDAR (earnings before interest, taxes, depreciation, amortization and obsolescence and aircraft rent) is a non-GAAP financial measure commonly used in the airline industry to view operating results before aircraft rent and depreciation, amortization and obsolescence as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets. EBITDAR is not a recognized measure for financial statement presentation under GAAP and does not have a standardized meaning and is therefore not likely to be comparable to similar measures presented by other public companies.

EBITDAR is reconciled to operating loss as follows:
($millions)

	Quarter 1 2007	Quarter 1 2006
Operating loss	**(78)**	(124)
Add back:		
Aircraft rent	**73**	83
Depreciation, amortization & obsolescence	**128**	115
EBITDAR	**123**	74
Add back:		
Special charge for labour restructuring [3]	**-**	28
EBITDAR, excluding special charges	**123**	102

(5) Operating expense per available seat mile, before fuel expense and the special charge for labour restructuring, is calculated as operating expense, removing fuel expense and the special charge for labour restructuring, divided by ASMs. Refer to section 14 "Non-GAAP Financial Measures" of Air Canada's Quarter 1 2007 MD&A for additional information.

(6) Operating fleet excludes chartered freighters in 2007 and 2006.

(7) Excludes maintenance down-time.

(8) Excludes third party carriers operating under capacity purchase arrangements.

(9) Includes fuel handling and fuel hedging expenses.